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The Veterans and Dependents Education Loan Program administered by the Veterans Administration (VA) has been growing since its beginning in 1974 and, in the first quarter of 1978, 8,800 loans totaling \$11.4 million were made. However, the program has not effectively met the congressional intent of providing financial aid to needy students attending high cost institutions because VA has not restricted loan eligibility to veterans attending high tuition schools and has not provided adequate criteria for evaluating financial needs or defined allowable education-related expenses. Only 28% of loans in regions examined were made to veterans attending high tuition schools. During the first 3 years of the program, 71% of loan applications analyzed were denied because financial need was not shown. All resources are not considered in determining financial need, and alternative guidelines are needed. The loan default rate has been high, 44% according to VA data, and possibly up to 55% according to GAO estimates. The high default rate resulted primarily from problems in collection procedures such as: borrowers were not contacted promptly after leaving school, due dates for first payments were not clear, collection letters need to be strengthened, some regions were not offsetting defaulted loans against benefits, legislation does not give VA authority to require reduced repayment periods for small loans, and efforts to locate veterans were hampered by a recent Internal Revenue Service (IRS) ruling which does not allow the IRS to provide address information. (HTW)

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STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON EDUCATION AND TRAINING
COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES
ON
THE VETERANS ADMINISTRATION
EDUCATION LOAN PROGRAM

Mr. Chairman and Members of the Subcommittee, we are pleased to be here today to discuss the results of our review of the Veterans Administration's (VA) education loan program. Our review was made at nine of the 58 VA regional offices and at 24 selected post secondary schools in these nine regions. At each region we selected random samples of loan recipients, defaulters and unsuccessful applicants and reviewed their claims folders.

EDUCATION LOAN PROGRAM

The Veterans and Dependents Education Loan Program administered by VA was authorized by the Vietnam Era Veterans' Readjustment Assistance Act of 1974 (Public Law 93-508, December 3, 1974). Under the program as originally enacted, an eligible veteran or dependent could receive a loan of up to \$600 per academic year from VA if he or she

--was attending an educational institution on at least a half-time basis,

(a) was enrolled in a course leading to a standard college degree, or

(b) was enrolled in a non-college degree course, which required 6 months or longer to complete, leading to an identified and pre-determined professional or vocational objective,

--had sought and was unable to obtain a loan in the full amount needed under the Guaranteed Student Loan program administered by the Office of Education, Department of Health, Education, and Welfare, and
--entered into an agreement with VA providing for repayment of the loan, with interest, beginning nine months after the veteran ceased to be at least a half-time student and ending ten years later.

The amount of financial need is determined by subtracting the total amount of financial resources available to the veteran which may reasonably be expected to be expended for educational purposes from the actual cost of attending the institution, as defined by the law and the VA Administrator.

Although the authorizing legislation does not specifically refer to high cost institutions, the legislative

history shows that the primary purpose of the program is to provide a source of financial aid, in addition to VA educational assistance benefits, to students attending high cost institutions who would not otherwise be financially able to do so.

Initial participation in the loan program was less than expected and Congress responded by amending the loan program. In October 1976, Public Law 94-502 increased the maximum loan amount to \$1,500 per academic year, reduced the interest rate from 8 to 7 percent, and extended eligibility to veterans participating in the newly authorized Post Vietnam Era Veterans' Educational Assistance Program. Congress also directed VA to undertake an aggressive outreach program to assure that veterans were aware of the loan program.

Following VA's outreach efforts and the legislative amendments, participation in the program increased significantly. In calendar year 1975, 7,996 loans totaling over \$4.5 million were made. In 1977, 20,377 loans totaling over \$23 million were made.

Effective January 1978, Public Law 95-202 increased the maximum loan amount to \$2,500 per academic year and eliminated the requirement that the veteran must have been denied a Guaranteed Student Loan.

The program continued to grow during the first quarter of calendar year 1978 when 8,800 loans totalling \$11.4

million were made. VA anticipates continued growth, projecting loans totaling \$75.6 million in fiscal year 1978 and another \$83 million in fiscal year 1979.

EDUCATION LOAN PROGRAM
NOT MEETING CONGRESSIONAL INTENT

We identified two major factors which tended to limit the program's effectiveness in providing an additional source of financial aid to needy students attending high cost institutions. First, because the authorizing legislation was silent on the subject, VA's implementing regulations and program guidelines do not restrict loan eligibility to veterans attending high tuition schools. Second, VA has not provided its regional offices with adequate criteria for evaluating veterans' financial needs, nor has it adequately defined allowable education-related expenses.

As a result, about 72 percent of the total number of loans made from inception of the program through December 1977 in the nine VA regions we visited were made to veterans attending schools charging low tuition or no tuition at all. Conversely, only 28 percent of the loans were made to

veterans attending high tuition schools. High tuition schools, as defined in related legislation, are those where tuition and fees exceed \$700 per academic year.

We also found that loan usage was concentrated within the public school sector rather than the private school sector which generally has much higher tuition costs. About 80 percent of all loans made during the first 3 years of the program went to veterans attending public schools. This is consistent with other VA data which shows that about 81 percent of Vietnam Era veterans receiving educational benefits are enrolled in public institutions, and 19 percent in private institutions.

The southern and western sections of the country dominate program usage as veterans attending school in these areas received 41 and 39 percent of all loans, respectively. The Midwest accounted for 16 percent and the Northeast, only 4 percent. However, in the Northeast, 54 percent of the loans were to veterans attending high tuition schools.

FAILURE TO ESTABLISH ADEQUATE
GUIDELINES FOR DETERMINING
FINANCIAL NEED

The Congress intended that education loans be made available only to veterans who need assistance in meeting education-related expenses. However, VA has not adequately

defined the type of expenses reasonably related to attending an institution; nor has it provided the regions with any guidance on the amounts which should be allowed for education-related expenses. In addition, VA does not require that all resources available to the applicant be reported, and does not require that information supplied by applicants be verified.

As a result, regional adjudicators who review and approve loans have no basis for determining or verifying the veteran's need for an education loan.

VA has not defined expenses reasonably related to attendance other than allowing living expenses for dependents and limiting commuting costs to 12 cents per mile. The nine regions visited had not developed any criteria to further define the cost of attendance or what expenses are reasonably related to attendance.

Questionable expenses and variances in amounts allowed

Because of inadequate guidelines, we found adjudicators allowing almost all types of expenses, regardless of whether they were reasonably related to education. We also found that some regions allowed certain expense items while others disallowed the same expense items. For instance, the Atlanta regional office allowed recreational expenses while the St. Louis regional office did not. Wichita regional office adjudicators disagreed on whether recreational expenses

should be allowed. The Los Angeles regional office allowed medical and dental expenses but the San Diego regional office did not. In Montgomery, life insurance premiums were allowed by one adjudicator but disallowed by another.

We also found variances in the amounts allowed. For example, the amounts allowed for books and supplies ranged from \$50 to \$620; commuting expenses ranged from \$120 to \$1,350; non-institutional room and board ranged from \$1,440 to \$5,200; and other education-related expenses ranged from \$0 to \$5,308.

Denial of loan applications

During the first 3 years of the loan program, VA adjudicators denied 32 percent of the total applications received. Our analysis of a random sample of 255 of 1,324 applications denied during the 6-month period ended December 31, 1977, in the nine regions we visited, showed that 71 percent were denied because reported expenses did not exceed reported resources--the veteran did not show financial need. VA adjudicators denied very few loans on the basis of disallowed expenses. In addition, 58 of the 182 veterans whose initial applications were denied because their resources exceeded expenses resubmitted applications showing changes in resources or expenses, and VA subsequently approved the loans.

All resources not considered
in determining financial need

The authorizing legislation provides that the "total amount of financial resources" available to the veteran which may reasonably be expected to be spent for educational purposes should be considered in determining financial need. The law states that the term "total amount of financial resources" includes, among other things, the "annual adjusted effective income" of the veteran less Federal income tax paid or payable.

VA has defined "annual adjusted effective income" to be the net taxable income less income tax paid or payable. Thus, non-taxable income such as compensation and pension benefits, Social Security benefits, disability payments, and unemployment benefits are not included when determining the veteran's resources.

Several regional officials told us that such income should be included in determining financial need since it is available to meet education-related expenses.

The law further provides that financial assistance received by the veteran from non-Federal scholarship and grant programs should also be considered in determining need.

One of the schools we visited in Illinois was a 2-year community college which charged \$363 an academic year for tuition and fees. Most veterans attending the school re-

ceived the Illinois veteran Scholarship. Although all seven loan recipients in our sample received this scholarship, none of them reported it as a resource in their application for a VA loan.

Alternative guidelines for determining financial need are available

Most educational institutions have developed their own standard budget--the estimated cost for attending the school for one academic year. These standard budgets are generally based on the type of living arrangement and family size, and cover both self-supporting students as well as dependent students living on and off campus. Use of these standard budgets to determine financial need negates applicants having to submit information relating to room and board or personal expenses.

Institutions currently show on the loan application the amount of tuition and fees to be paid by the veteran. VA could request that the schools also provide their standard budget for a student with similar circumstances. This data would include, in addition to tuition and fees, the amounts for room and board, transportation, books and supplies, and personal expenses. If personal expenses submitted by the veteran exceed the standards, VA would have to determine their reasonableness. The standard budget, plus any other allowable expenses, would then be compared to the veteran's resources to determine financial need.

OTHER FACTORS INFLUENCING
PROGRAM PARTICIPATION

In each VA region visited a different mix of factors influenced use of the loan program. However, program promotion and showing financial need appeared to be the most important factors. The ability to show financial need was dependent on (1) availability of Federal or State aid, (2) availability of part-time and full-time jobs, and (3) cost of living.

LOAN DEFAULT RATE IS HIGH AND
COLLECTION EFFORTS NEED IMPROVEMENT

According to VA data, as of December 31, 1977, 44 percent of all matured loans were in default; however, CAO found errors in this data in five of the nine regions visited which indicates the default rate might have been as high as 55 percent. VA's central office was not aware of the extent of this problem because it was not collecting all of the data necessary to properly compute the default rate.

One of the major reasons for the high default rate is VA's inability to locate or otherwise contact the veterans after they leave school. This problem is due, at least in part, to the fact that VA's collection procedures

- do not provide for promptly contacting veterans as soon as it learns they are no longer attending school at least on a half-time basis,
- were not well defined, and

--were not consistently applied by the regions. This problem might be exacerbated by a 1977 Internal Revenue Service ruling that it can no longer provide address locator service to VA.

Prior to December 31, 1977, VA central office was routinely collecting data on the number of loan applications received, approved, and denied each quarter by region and cumulatively for the program. It also collected data on the number and amount of loans made and defaulted on each quarter by school and cumulatively for the program. However, it did not collect data on the number or amount of loans in repayment status.

In December 1977 we requested VA to obtain from each regional office the number and amount of loans which had become due since the beginning of the program. According to the data VA collected from the 58 regions, 6,564 loans totaling about \$3,800,000 had become due. Of these, 2,893 or 44 percent were in default on December 31, 1977.

Using the data collected by VA, we also computed default rates for each of the 58 regions. These rates ranged from zero percent in Togus, Maine; Baltimore, Maryland; and Columbia, South Carolina; to over 80 percent in Boston, St. Paul and Phoenix.

Data reported by
VA understates the
default problem

At the nine VA regions we visited, we checked the accuracy of the data on defaulted loans provided to central office. Four regions reported default data correctly while five regions understated the number of loans in default by a combined total of 164 loans. Of the five, two regions which reported that they had no loans in default had actual default rates of 54 and 90 percent. Although another region-- New York--had a default rate of 50 percent, it was based on only four loans in repayment status. The remaining two of the five regions had also understated the number of loans in default.

By including the additional 164 defaulted loans in the calculation of the nationwide default rate, the rate rises from 44 percent to 47 percent. If the other 49 regions understated their defaulted loans by the same degree as the nine we visited, the nationwide default rate could be as high as 55 percent.

COLLECTION EFFORTS
NEED IMPROVEMENT

Regional and central office officials told us that a primary reason for the high default rate was the fact that VA had difficulty locating and contacting the borrowers after they left school. For example, a recent VA survey shows that of 783 borrowers who had defaulted on their loans,

652 or 83 percent could not be located or did not respond to VA payment notices. In addition, VA officials in several regions told us that many veterans view the loan program as an entitlement and not an obligation to be repaid.

Borrowers not contacted promptly after they leave school

VA instructions provide that an education loan becomes due 9 months after the date the borrower ceases to be at least a half-time student, and that the initial repayment notice be mailed to the veteran 45 days prior to the due date. The repayment notice reminds the veteran of the obligation to repay the loan, advises the veteran of the date on which the first payment is due, and requests the veteran to select one of five repayment plans--lump sum or monthly, quarterly, semi-annual or annual payments over a 10-year period. These instructions also require that effective followup be made to insure timely receipt of the borrower's reply. However, the instructions do not elaborate on the type or timing of followup action.

Several of the regional offices we visited were not mailing the initial repayment notice on time. For example, Boston, Chicago, and St. Louis were not sending out repayment notices in many cases until after the due date of the first payment. These delays resulted largely because the three regions initially set up repayment dates based upon expected

dates of graduation, rather than the expected end of the enrollment period for which the loan was made. Because many veterans leave school before graduation, these offices were not classifying loans as being in a repayment status and thus were not requiring loan repayments on a timely basis.

Due date for first payment not clear

VA central office officials told us that the first payment is due at the beginning of the installment period selected by the veteran. However, the interest tables developed by VA for the loan program compute interest on the basis of repayment being made at the end of the installment period.

VA regions we visited in St. Louis, Los Angeles, Newark, Chicago, Montgomery, and New York require that the first payment be made at the beginning of the installment period. Thus, in these regions, veterans are charged too much interest. The other three regions--Boston, San Diego, and Wichita--required that the initial installment payment be made at the end of the installment period the borrower selected. Because of this, up to 18 months can pass before a loan is classified as defaulted and collection action initiated if the borrower had selected an annual repayment schedule.

Collection letters need to be strengthened

VA central office has not developed standard collection letters tailored to the education loan program. As a result, some VA regional offices tried to collect defaulted loans by using standard VA collection form letters designed for collecting other types of overpayments. These letters were normally sent out at 30-day intervals after default.

The initial letter informs the borrower of the indebtedness to the Government, asks the borrower to make arrangements to pay or to complete a financial status report if repayment cannot be made, and mentions that debts can be waived under certain circumstances.

The second letter is somewhat stronger.

The third and final letter informs the borrower of the urgent need to contact the VA regional office within 5 days, and mentions that VA has authority to accept compromise settlements. It also warns that, unless payment is made, the case can be referred to GAO for collection action.

Some regions have developed their own collection letters which are sent out at 30 day intervals and which include most of the above information. The letters are more strongly worded, and each letter refers to the loan program as the cause of the indebtedness. Although our work in this area was limited we did note that the regions which were using the more strongly worded collection letters tailored to the loan program tended to have lower default rates than the other regions.

Some regions not using offset to collect loans

Under VA procedures, once an education loan is classified as defaulted, it becomes an overpayment and can be offset against regular GI education benefits, or VA compensation and pension payments.

Officials in some regions told us that defaulted loans were offset against education benefits whenever possible. However, others were not offsetting at the time of our visits, but some told us that they would start.

Offsetting can be a viable method of collecting loan defaults from a veteran receiving other types of VA payments. We believe that all regional offices should be required to collect loans due by offset where possible.

Repayment period should be reduced for small loans

The authorizing legislation states that VA education loans shall be repaid over a 10-year period. While the language of the act permits a veteran to repay the loan in less than 10 years, it does not give VA authority to require repayment in less than this time period. Accordingly, all installment options offered by VA are based on the 10-year period, regardless of the loan amount.

Federal Claims Collections Standards state that, if possible, installment payments should be sufficient in

size and frequency to liquidate the debt in not more than 3 years. The authorizing legislation for the Guaranteed Student Loan Program requires a minimum repayment of \$360 annually and results in small loans being repaid sooner.

Extending repayments over a 10-year period does not seem necessary for all loans and does not seem to be a good collection practice.

Efforts to locate veterans hampered
by recent Internal Revenue Service ruling

Sources used to locate borrowers included postmasters, credit bureaus, State motor vehicle departments, veterans' claim files, telephone directories and certified or registered demand notices. Also, VA regions had used address information supplied by the Internal Revenue Service. Officials at some regions we visited and VA central office officials told us the Internal Revenue Service had been the best source of current address information.

However, in November 1977 the Internal Revenue Service advised VA that addresses would no longer be provided to the VA for claims collection purposes, if the VA continued to redisclose the addresses to a contractor. The Internal Revenue Service explained that while the Tax Reform Act of 1976 (26 U.S.C. 6103) permits it to provide taxpayer addresses to officials of other Federal agencies for debt collection purposes, this information could not be passed

along to third parties. VA was using the address data furnished by the Internal Revenue Service to obtain credit reports on borrowers who had defaulted on their loans; VA must have a credit report before it can refer a defaulted loan to GAO or the Department of Justice for further collection action.

In April 1978 VA proposed to the Office of Management and Budget that the Tax Reform Act of 1976 be amended to allow the Internal Revenue Service to provide addresses for use by VA, and its credit bureau contractor, in locating debtors. We concur with VA's proposal. However, VA can also improve its ability to locate veterans by requiring its regions to take action to locate them immediately after they leave school.

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Mr. Chairman, in our report, we are making a number of recommendations to the Administrator of Veterans Affairs which should help to improve the loan program. We are also recommending that the Congress amend VA education loan program authorizing legislation (38 U.S.C. Sec. 1798) to give the Administrator of Veterans Affairs the authority to

--limit program eligibility to veterans attending high tuition institutions, in accordance with congressional intent as stated in the legislative history; and

--require repayment of small loans in less than
10 years.

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This concludes my statement Mr. Chairman. We will be
happy to respond to any questions you or other Members of
the Subcommittee might have.